

REPORT OF EXAMINATION  
OF THE  
GENERAL FIDELITY INSURANCE COMPANY  
  
AS OF  
DECEMBER 31, 2004

Participating State  
and Zone:

California

Filed February 10, 2006

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Los Angeles, California  
September 30, 2005

Honorable Alfred W. Gross  
Chairman of the NAIC Financial  
Condition Subcommittee  
Commissioner of Insurance  
Virginia Bureau of Insurance  
Richmond, Virginia

Honorable John Morrison  
Secretary, Zone IV-Western  
Commissioner of Insurance and Securities  
Montana Department of Insurance  
Helena, Montana

Honorable John Garamendi  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

#### GENERAL FIDELITY INSURANCE COMPANY

(hereinafter also referred to as the Company) at its main administrative office located at 201 North Tryon Street, Charlotte, North Carolina 28255. The Company's statutory home office is located at 555 California Street, San Francisco, California 94101.

#### SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2004. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Company's affiliate General Fidelity Life Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

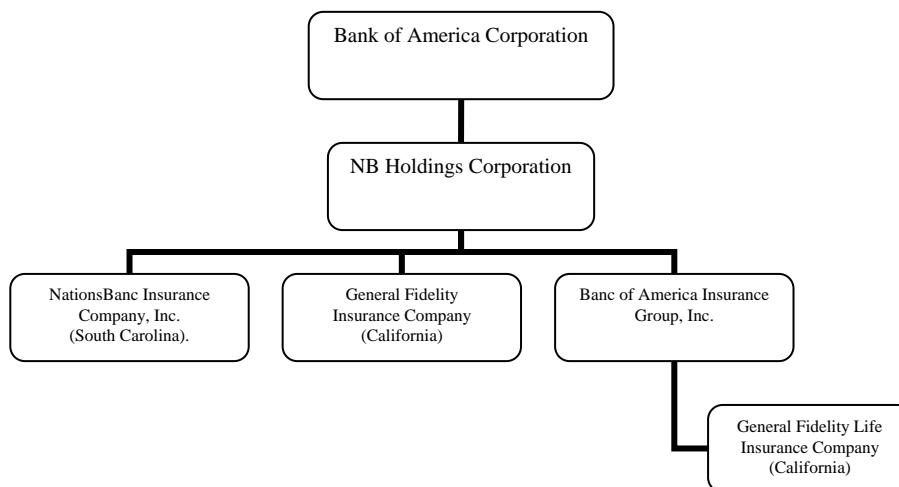
### COMPANY HISTORY

The Company was incorporated in the State of California on March 17, 1987 and commenced business on July 1, 1987. The Company reported common capital stock of \$2.5 million and \$39.3 million of gross paid-in and contributed surplus at year-end 2004.

The Company is authorized to issue 500,000 shares of common stock with a par value of \$50 each. Currently, 50,000 shares of common stock are issued and outstanding.

### MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of NB Holding Corporation. The ultimate parent is Bank of America Corporation. An abridged organizational chart follows showing the inter-relationship of the Company, its parent and affiliates as of December 31, 2004: (all ownership is 100%)



Management of the Company is vested in a five-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 follows:

### Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Thomas G. Myrick Charlotte, North Carolina	Chairman of the Board General Fidelity Insurance Company
Martin R. Rasmussen (*) Charlotte, North Carolina	President General Fidelity Insurance Company
Glen R. Graham (**) Charlotte, North Carolina	Treasurer General Fidelity Insurance Company
Timothy A. Burdick Duluth, Georgia	Senior Vice President General Fidelity Insurance Company
Jon K. Pellerin Mt. Holly, North Carolina	Senior Vice President General Fidelity Insurance Company

(\*) resigned February 28, 2005

(\*\*) resigned February 1, 2005 and was replaced by Lewis Williams

### Principal Officers

<u>Name</u>	<u>Title</u>
Martin R. Rasmussen (*)	President
Glen R. Graham (**)	Treasurer
Christine M. Costamagna	Secretary
Timothy A. Burdick	Senior Vice President
Linda S. Need	Senior Vice President
David R. Smith	Senior Vice President
Thomas M. Brantley	Senior Vice President
Jon K. Pellerin	Senior Vice President
Rosalind K. Stanford	Senior Vice President
Brent C. Andersen	Senior Vice President
Florence S. Prather	Senior Vice President
Duane L. Smith	Senior Vice President
William W. Calvin	Vice President
James Mann	Vice President
Jennielea Haynes	Vice President

(\*) resigned February 28, 2005 and was replaced by Jon K. Pellerin

(\*\*) resigned February 1, 2005 and was replaced by Lewis Williams

### Management Agreements

Management Agreement: Effective January 1, 2001, the Company entered into a management agreement with its ultimate parent, Bank of America Corporation (BAC). Pursuant to the terms of the agreement, BAC provides all administrative services to the Company. The Company reimburses BAC for the actual cost of these services. The California Department of Insurance (CDI) approved this agreement on January 16, 2001. For 2002, 2003 and 2004, the Company paid \$5,122,768, \$4,513,815 and \$3,661,079 respectively, under the terms of this agreement.

Investment Management Agreement: The Company entered into an Investment Management Agreement with Columbia Management Advisors, Inc. (CMAI), an affiliated company. In accordance with the Company's investment guidelines, CMAI provides investment management services. CMAI's compensation is based on the average quarterly market value of the assets managed and the applicable basis points. Annual fees are billed quarterly in arrears based on the market value of assets under management at the end of the quarter. The CDI approved this agreement. For 2002, 2003 and 2004, the Company paid \$200,800, \$172,285 and \$174,921 in fees respectively, to CMAI under the terms of this agreement.

Consolidated Federal Income Tax Allocation Agreement: The Company and its affiliates are parties to a Consolidated Federal Income Tax Allocation Agreement with BAC. Allocation of taxes is based upon separate return calculations. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes in prior years in the event of future net losses that it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2004, the Company is licensed to transact credit, disability, and miscellaneous lines of insurance in the District of Columbia and the following 46 states:

Alabama	Louisiana	Oklahoma
Alaska	Maine	Oregon
Arizona	Maryland	Pennsylvania
Arkansas	Michigan	Rhode Island
California	Minnesota	South Carolina
Colorado	Mississippi	South Dakota
Delaware	Missouri	Tennessee
Florida	Montana	Texas
Georgia	Nebraska	Utah
Hawaii	Nevada	Vermont
Idaho	New Hampshire	Virginia
Illinois	New Jersey	Washington
Indiana	New Mexico	West Virginia
Iowa	New York	Wyoming
Kansas	North Dakota	
Kentucky	Ohio	

In 2005 the Company became licensed in North Carolina, and is authorized in Connecticut as a reinsurer only.

The Company provides credit insurance and involuntary unemployment insurance products to credit cardholders of the parent's banking operations. The Company writes only a small amount of involuntary unemployment insurance in the State of Arizona, which is then ceded to Central States

Indemnity Company of Omaha (CSIC), an unaffiliated insurer. For the three-year examination period of 2002, 2003 and 2004, the Company wrote \$83,271, \$73,880, and \$63,703, respectively, in direct business. The Company does not produce any business through agents or managing general agents.

The Company's existing book of business was placed into effective run-off in January 2000, as the group migrates towards a non-insurance, debt cancellation product to be offered by the Company's parent. A new business plan has been completed and submitted to the California Department of Insurance pursuant to California Insurance Code (CIC) Section 810.

A summary of the business plan is as follows: The Company is proposing to write Debt Protection Contractual Liability Policies that will be marketed and sold to financial institutions. These policies will not be mass marketed or marketed at all to individuals or small businesses. These are large contracts that will only be entered into with financial institutions.

The Debt Protection Contractual Liability Policy is a mechanism by which the insured financial institution can transfer to the Company their risk for contractual obligations they may have with individual customers to cancel debt. These obligations may arise out of mortgages, auto or boat loans, credit cards, or any other form of consumer debt. So if the insured's financial institution has a contractual obligation to cancel debt, the Company is proposing to underwrite that obligation and provide insurance for it through their contractual liability product.

In 2005, the Company and its affiliate, General Fidelity Life Insurance Company, are both seeking redomestication to South Carolina. The South Carolina Department of Insurance expected approval date is on or about November 1, 2005. The CIC Section 709.5 gives the California Department of Insurance 90 days to review the transaction.

## REINSURANCE

### Assumed



Effective January 1, 2000, the Company entered into a fronting quota-share reinsurance treaty with Central States Indemnity Company of Omaha (CSIC), to assume 25% of credit accident and health and credit involuntary unemployment insurance written by CSIC, a non-affiliated insurance company. Tryon Assurance Company, Ltd. (TACL), an affiliated company, assumes the remaining 75%. CSIC offers this protection to credit card customers of BankAmerica, N.A. (the Bank), in California, Arizona and Washington. CSIC also provides policy and claim administrative services on behalf of the Company.

In 2004, the Bank transferred the future rights to this insurance business produced by CSIC to Triton Insurance Company (TIC), an affiliated company of Citibank. The transfer of the business was structured in a two-step process with an initial effective date of July 1, 2004. Upon execution, the Company received consideration of approximately \$4,545,000, which is reported as other income in the accompanying statement of operations. During the period from July 1, 2004 to December 31, 2004, the Company and TIC agreed to share the business produced by CSIC equally. As of January 1, 2005, 100% of the business will be assumed by TIC from CSIC and the Company will receive additional consideration of approximately \$3,880,492 in exchange for the rights to the additional business.

Related to the transaction above, TACL retroceded 100% of its liabilities totaling approximately \$5,368,103 under the book of business to the Company effective November 1, 2004 in consideration for assets equal in value to the ceded liabilities. The Company will retain the liability for all losses incurred prior to July 1, 2004.

#### Ceded

The Company has a reinsurance agreement with CSIC whereby the Company cedes all direct written credit card accident and health insurance, and credit card involuntary unemployment to CSIC. This reinsurance agreement has been in effect since March 1, 1993, and the Company only writes minimal amounts of direct business.

#### ACCOUNTS AND RECORDS

The examination experienced difficulties in reconciling the Company's general ledger and trial balance to the Company's loss data. It is recommended that the Company properly reconcile its general ledger and trial balance to loss data in the Annual Statement

#### Subsequent Events

At the conclusion of the examination, in accordance with standard examination closing procedures, the Company was asked to provide a corporate business plan, a letter of representation and a subsequent events letter. In all the three documents the Company failed to disclose its plan to redomesticate the Company and its California affiliate to the State of South Carolina. It is recommended that in the future, the Company disclose all material events to the examiners.

### FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2001 through December 31, 2004

Statement of Financial Condition  
as of December 31, 2004

<u>Assets</u>	Ledger and Nonledger <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 99,311,077	\$ 99,311,077	
Common stocks	45,921,269	45,921,269	
Cash and short-term investments	11,701,243	11,701,243	
Investment Income due and accrued	1,134,451	1,134,451	
Reinsurance: Funds held by or deposited with reinsured companies	7,194,184	7,194,184	
Other amounts receivable under reinsurance contracts	<u>1,523,195</u>	<u>1,523,195</u>	
Total assets	<u>\$ 166,785,419</u>	<u>\$ 166,785,419</u>	
<u>Liabilities, Surplus and Other Funds</u>			
Losses		\$ 7,256,360	(1)
Loss adjustment expenses		0	(1)
Current federal and foreign income taxes		4,648,673	
Net deferred tax liability		484,735	
Payable for securities		<u>1,088</u>	
Total liabilities		12,390,856	
Common capital stock	\$ 2,500,000		
Gross paid-in and contributed surplus	39,313,984		
Unassigned funds (surplus)	<u>112,580,579</u>		
Surplus as regards policyholders		<u>154,394,563</u>	
Total liabilities, surplus and other funds		<u>\$ 166,785,419</u>	

Underwriting and Investment Exhibit  
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income

Premiums earned		\$ 4,721,315
Deductions:		
Losses incurred	\$ (1,144,045)	
Other underwriting expenses incurred	887,685	
Aggregate write-ins for underwriting deductions	<u>4,208</u>	
Total underwriting deductions		<u>(252,152)</u>
Net underwriting gain		4,973,467

Investment Income

Net investment income earned	\$ 4,385,745	
Net realized capital loss	<u>(677,882)</u>	
Net investment gain		<u>3,707,863</u>

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>4,545,719</u>	
Total other income		<u>4,545,719</u>
Net income before federal income taxes		13,227,049
Federal income taxes incurred		<u>4,648,673</u>
Net income		<u>\$ 8,578,376</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		\$ 139,809,706
Net income	\$ 8,578,376	
Change in net deferred income tax	(36,186)	
Change in net unrealized capital gains	6,015,706	
Aggregate write-ins for gains in surplus	<u>26,778</u>	
Change in surplus as regards policyholders		<u>14,584,856</u>
Surplus as regards policyholders, December 31, 2004		<u>\$ 154,394,563</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2001 through December 31, 2004

Surplus as regards policyholders, December 31, 2001, per Examination			\$123,250,429
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 24,694,022	\$	
Net unrealized capital losses	6,015,888		
Change in net deferred income tax		341,890	
Aggregate write-ins for gains in surplus	<u>776,114</u>		
Totals	<u>\$ 31,486,024</u>	<u>\$ 341,890</u>	
Net increase in surplus as regards policyholders			<u>31,144,134</u>
Surplus as regards policyholders, December 31, 2004, per Examination			<u>\$154,394,563</u>

## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Losses and Loss Adjustment Expenses

The California Department of Insurance (CDI), pursuant to CIC Section 733(g), retained an independent actuary for the purpose of providing a full actuarial evaluation of the Company's loss and loss adjustment expense reserves as of December 31, 2004. Based on the analysis by the independent actuary and the review work by a Casualty Actuary from the CDI, the Company's December 31, 2004 reserves for losses and loss adjustment expenses were determined to be reasonably stated.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Accounts and Records (Page 8): It is recommended that the Company properly reconcile its general ledger and trial balance to loss data in the Annual Statement. In addition, it is recommended that in the future, the Company disclose all material events to the examiners.

### Previous Report of Examination

Company History (Page 2): It was recommended that the Company file amended Articles of Incorporation. The Company complied with this recommendation.

Corporate Records (Page 5): It was recommended that the Company comply with the provisions of California Insurance Code (CIC) Section 735. The Company complied with this recommendation.

Territory and Plan of Operation (Page 5): It was recommended that the Company submit a business plan to the California Department of Insurance pursuant to CIC Section 810. The Company complied with this recommendation.

Accounts and Records (Page 7): It was recommended that the Company maintain sufficient detail to document and support all financial statement accounts. In addition, for future examinations, it was recommended that the Company complete the Insurance Information Systems Questionnaire to facilitate the examination review process. The Company complied with the second part of these recommendations

Bonds and Cash on Deposited and Short-Term Investments (Page 12): The following recommendations were made:

- It was recommended that the Company comply with the custodial provisions of CIC Section 1104.9. The Company complied with this recommendation;
- It was recommended that the Company submit its securities to the SVO for valuation. The Company complied with this recommendation;
- It was recommended that the Company comply with the provisions of CIC Section 1104.1. The Company complied with this recommendation.

It was also recommended that the Company correct the CIC Section 1198 deficiency regarding its short-term investment holdings. The Company complied with this recommendation.

It was recommended that the Company maintain all of its securities only in the name of the Company per CIC Section 1100. The Company complied with this recommendation.

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### ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees of Bank of America Corporation during the course of this examination are hereby acknowledged.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Hilary C. Solomon, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California